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TRADE RELATIONS WITH POLAND AND HUNGARY

HEARING

BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.R. 2356

IN SUPPORT OF THE PEOPLE AND NATION OF POLAND, AND TO
AMEND THE TRADE ACT OF 1974 AND THE FOREIGN ASSISTANCE ACT
OF 1961

AND

H.R. 1594

TO EXTEND NONDISCRIMINATORY TREATMENT TO THE PRODUCTS OF
THE PEOPLES' REPUBLIC OF HUNGARY FOR 5 YEARS

JUNE 12, 1989

Serial 101-33

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TRADE RELATIONS WITH POLAND AND HUNGARY

MONDAY, JUNE 12, 1989

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing, and a copy of the bills H.R. 2356 and H.R. 1594, follow:]

(1)

FOR IMMEDIATE RELEASE
FRIDAY, JUNE 2, 1989

SUBCOMMITTEE ON TRADE #14
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN,
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS,
ANNOUNCES A HEARING ON H.R. 2356 AND H.R. 1594,
BILLS TO IMPROVE U.S. TRADE RELATIONS WITH POLAND AND HUNGARY

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced a public hearing on H.R. 2356, introduced at the request of the Administration in support of the people and nation of Poland, and to amend the Trade Act of 1974 and the Foreign Assistance Act of 1961; and H.R. 1594, introduced by Chairman Gibbons, the Honorable Bill Frenzel (R., Minn.), and the Honorable Tom Lantos (D., Calif.), to extend nondiscriminatory treatment to the products of the Peoples' Republic of Hungary for five years. The hearing will be held on Monday, June 12, 1989, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.

Section 502(b) of the Trade Act of 1974 includes Poland on the list of countries that are prohibited from designation by the President as beneficiary developing countries eligible for duty-free treatment on imports of their products under the Generalized System of Preferences (GSP) program. Section 2 of H.R. 2356 would remove Poland from this statutory exclusion list and thereby authorize the President to designate that country as a GSP beneficiary, if the existing statutory criteria for designation are met.

Title IV of the Trade Act of 1974, the so-called "Jackson-Vanik amendment," prohibits the extension of most-favored-nation (MFN) trading status to nonmarket economy countries, unless the President certifies that such a country meets certain standards relating to the freedom of emigration of its citizens. If he determines that a country meets those standards, the President may extend MFN treatment to the country. If the country does not meet the standards, Title IV authorizes the President to waive the Jackson-Vanik prohibition and extend MFN for a period of one year, if he determines that doing so will further the purposes of the bill. H.R. 1594 would supersede the provisions of Title IV and extend MFN treatment to Hungary for a period of five years, in recognition of the substantial improvement in that country's emigration policies and practices.

The Subcommittee will receive testimony from Administration and private sector witnesses, and is interested in hearing their views on such questions as: to what extent will the bills promote improved trade and economic relations between the United States and the countries concerned; to what extent are the bills likely to prompt Poland and Hungary to continue the positive movement toward more open economic and political systems; what impact will the granting of GSP treatment in the case of Poland or MFN status in the case of Hungary have on U.S. firms and workers engaged in trade with those countries or competing with their products? Witnesses are encouraged to address any other questions which they feel are relevant to this issue. With respect to H.R. 2356, the Subcommittee will receive testimony only on the provisions relating to GSP duty-free treatment.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Wednesday, June 7, 1989. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee

staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Friday, June 16, 1989, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

SEE FORMATTING REQUIREMENTS BELOW:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will ~~not~~ be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the members, the press and public during the course of a public hearing, may be submitted in other forms.

101ST CONGRESS
1ST SESSION

H. R. 2356

In support of the people and nation of Poland, and to amend the Trade Act of 1974 and the Foreign Assistance Act of 1961.

IN THE HOUSE OF REPRESENTATIVES

MAY 16, 1989

Mr. FASCELL (for himself, Mr. BROOMFIELD, Mr. ROSTENKOWSKI, and Mr. ARCHER) (by request) introduced the following bill; which was referred jointly to the Committees on Ways and Means and Foreign Affairs

A BILL

In support of the people and nation of Poland, and to amend the Trade Act of 1974 and the Foreign Assistance Act of 1961.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SENSE OF CONGRESS.**

4 It is the sense of the Congress that—

5 (1) the United States has long supported the
6 Polish people in their efforts to attain democracy and
7 economic prosperity;

8 (2) as the President of the United States stated on
9 April 17, Americans are bound to Poland by a bond of
10 culture and shared values;

1 (3) the Roundtable Agreements between Solidari-
2 ty and the Polish government signed on April 5, if
3 faithfully implemented, will be a watershed in the post-
4 war history of Poland and Eastern Europe, providing a
5 basis for peaceful, democratic evolution and market-ori-
6 ented economic recovery and growth;

7 (4) in implementation of the Roundtable Agree-
8 ments, on April 17 the Polish government again legal-
9 ized the independent trade union Solidarity;

10 (5) new elections in Poland, including for a freely
11 elected Senate, are scheduled for June;

12 (6) the Roundtable Agreements also provide for a
13 free opposition press, independent political and other
14 associations and other significant reforms;

15 (7) freedom thus has an opening in Poland but
16 major challenges remain; to fulfill its promise, all par-
17 ties will have to fulfill the commitments made in the
18 Roundtable Agreements;

19 (8) Poland's economic situation is weak, the result
20 of decades of systemic inefficiencies due to communist
21 centralized planning, and recovery will be neither easy
22 nor swift;

23 (9) Poland's democratic forces, aware of the chal-
24 lenge as well as the opportunity, have asked for the
25 support of the West, including economic support;

1 (10) as the President said on April 17, the day of
2 Solidarity's relegalization, "We can and we must
3 answer this call to freedom";

4 (11) while economic recovery will be the task of
5 the Poles themselves, the West and the United States
6 can support this process;

7 (12) support for Poland must be carefully chosen
8 and conditional; there should be no untied aid or un-
9 conditional credits;

10 (13) the President has outlined a program of spe-
11 cific steps in support of Poland and her people, in rec-
12 ognition of reforms now underway and in support of re-
13 forms yet to come, two of which require specific legis-
14 lation; and

15 (14) given Solidarity's legalization and other re-
16 forms now underway, ¹⁹⁸⁵⁻¹⁹⁸⁶ provision to Poland of access to
17 the Generalized System of Preferences and authoriza-
18 tion of the Overseas Private Investment Corporation to
19 operate in Poland, are effective ways to support the
20 process of democracy and reform in Poland.

21 **SEC. 2. GENERALIZED SYSTEM OF PREFERENCES.**

22 (a) **ELIGIBILITY FOR GSP.**—Subsection (b) of section
23 502 of the Trade Act of 1974 (19 U.S.C. 2462(b)) is
24 amended by striking out "Poland" in the table within such
25 subsection.

1 (b) EFFECTIVE DATE.—The amendment provided for in
2 subsection (a) of this section shall take effect on the date of
3 enactment of this Act.

4 SEC. 3. OVERSEAS PRIVATE INVESTMENT CORPORATION.

5 (a) ELIGIBILITY FOR OPIC PROGRAMS.—Section
6 239(f) of the Foreign Assistance Act of 1961 (22 U.S.C.
7 2199(f)) is amended by inserting "Poland" after "Yugo-
8 slavia".

9 (b) EFFECTIVE DATE.—The amendment provided for in
10 subsection (a) of this section shall take effect on the date of
11 enactment of this Act.

101ST CONGRESS
1ST SESSION

H. R. 1594

To extend nondiscriminatory treatment to the products of the Peoples' Republic of Hungary for 5 years.

IN THE HOUSE OF REPRESENTATIVES

MARCH 23, 1989

Mr. GIBBONS (for himself, Mr. FRENZEL, and Mr. LANTOS) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To extend nondiscriminatory treatment to the products of the Peoples' Republic of Hungary for 5 years.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. EXTENSION OF NONDISCRIMINATORY TREAT-
4 MENT TO THE PRODUCTS OF HUNGARY.

5 Subject to section 2, during the 5-year period beginning
6 on July 4, 1989, nondiscriminatory treatment (most-favored-
7 nation treatment) applies to the products of the Peoples'
8 Republic of Hungary.

1 SEC. 2. REQUIREMENT FOR BILATERAL COMMERCIAL
2 AGREEMENT.

3 The nondiscriminatory treatment provided for under
4 section 1 shall apply only during such time within the 5-year
5 period referred to in that section that there is in effect be-
6 tween the United States of America and the Peoples' Repub-
7 lic of Hungary a commercial agreement that meets the re-
8 quirements set forth in section 405(b) of the Trade Act of
9 1974 (19 U.S.C. 2435(b)).

10 SEC. 3. COORDINATION WITH JACKSON-VANIK AMENDMENT.

11 During the 5-year period referred to in section 1, the
12 provisions of section 401, 402, 404, 405(a) and (c), and 407
13 of the Trade Act of 1974 are suspended with respect to the
14 Peoples' Republic of Hungary except to the extent necessary
15 for the inclusion of that country within the appropriate
16 waiver procedures of section 402(d) for purposes of extending
17 nondiscriminatory treatment (if the President decides to rec-
18 ommend such extension) to Hungarian products after July 3,
19 1994.

Chairman GIBBONS. Good afternoon, ladies and gentlemen. This is a hearing of the Ways and Means Subcommittee on Trade to consider legislation relating to trade relations with Poland and Hungary. H.R. 2356 and 2550 would authorize the President to designate Poland as a beneficiary country under the U.S. GSP Program. H.R. 5094, introduced by me and my colleague, Mr. Frenzel, would extend most-favored-nation treatment to Hungary for five years.

With dramatic changes occurring in many parts of the Eastern bloc, it is timely for us to be considering ways to improve the U.S. trading relationship with two countries which have undertaken the most far-reaching reforms in Eastern Europe. I would like to note that the Chairman of the full committee, the Honorable Dan Rostenkowski, who is also a member of the Subcommittee on Trade, has asked me to insert at the beginning of today's record a letter he has written to me in support of the legislation relating to Poland, which is before us today.

Mr. Rostenkowski could not be here today, but I suspect it will come as no surprise to members that the chairman has a deep and pronounced interest in the subject of Poland. Without objection, his letter will appear at this point in the record.

[The letter follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, June 9, 1989.

Hon. SAM GIBBONS,
Chairman, House Ways and Means Committee, Subcommittee on Trade, Washington DC.

DEAR MR. CHAIRMAN: Thank you for your prompt action in calling Subcommittee hearings on legislation to remove Poland from the statutory exclusion list for the Generalized System of Preferences program. Unfortunately, I will not be in Washington on the date of the hearing, June 12. I therefore request that this letter of support be made a part of the hearing record.

The GSP legislation before the Subcommittee at this time is part of a larger effort to formulate a positive and useful U.S. response to the dramatic developments in Poland of recent months. The other provisions being prepared for Congressional action fall outside the jurisdiction of the Committee on Ways & Means, but I am happy that the Committee has at least this limited opportunity to make a contribution to the larger package.

When seen in the context of other democracy-driven events around the world, many of them bloody, the accomplishments of the Polish people in reaching the sweeping "roundtable agreements" is nothing less than inspirational. Now that a new social order has been designed, the next tasks are the more difficult ones—putting the reforms into action, and bringing the nation together to pursue honest, tough, and essential economic reform.

Ever since we re-engaged Poland in a bilateral dialogue in 1986, the United States has acted cautiously and, I believe, prudently in conditioning any favorable action toward Poland on real progress toward national reconciliation and economic reform. We have insisted that no programs of assistance, whether bilateral or multilateral, would receive U.S. support until the Polish people were allowed to assume a greater role in determining their own fate. The "roundtable agreements" constitute a major step toward that goal.

Although we must not lose sight of the continued need for conditionality, it is time to send a positive acknowledgment of the important progress which has been made. This is the genesis of the President's proposals, and of other modest proposals being sponsored by Members of Congress.

Legislation to remove Poland from the GSP exclusion list is little enough, but it is what the Committee on Ways & Means can add to the U.S. response at this time. There is considerable support for the measure—in the Administration, in the Congress, and in the private sector, which is showing unmistakable signs of wanting to do more business with and in Poland.

I hope you will have an interesting hearing on June 12, and I look forward to receiving the Subcommittee's recommendation.

With thanks, again, and best personal regards, I remain

Sincerely,

DAN ROSTENKOWSKI,
Member of Congress.

Chairman GIBBONS. Our first witness today is Mr. William Bodde, Senior Deputy Assistant Secretary of State for European and Canadian Affairs. Mr. Bodde, you may proceed. May I say before you proceed, I am glad that things are finally beginning to happen favorably, as far as these two countries are concerned. Let's move as rapidly as we can. It is one sure thing—that history will never record that the United States has been overly aggressive in this field.

STATEMENT OF WILLIAM BODDE, JR., DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS, U.S. DEPARTMENT OF STATE, ACCOMPANIED BY JAMES SWIHART, DIRECTOR, EASTERN EUROPEAN AFFAIRS

Mr. BODDE. Thank you, Mr. Chairman.

If I could request from the committee that my testimony be entered in the record.

Chairman GIBBONS. It will be, certainly.

Mr. BODDE. I will simply make some key points so we can move along.

Chairman GIBBONS. It will be inserted in the record as if fully delivered.

Mr. BODDE. First, to look at the opportunity we have, profound political, economic and social change is underway in Eastern European and throughout the Communist world. The pace and prospects for reform vary widely among the countries of Eastern Europe, and the press throughout the region is vulnerable to setbacks.

Reforms in Eastern Europe are most advanced in Hungary and Poland. If the promise of reform is kept, and the indications that we have now are that it will be kept, Eastern Europe will be a very different place; more true to its own best historical traditions, more independent, and ultimately more prosperous and more stable.

The President's forthcoming trip to Poland and Hungary this July will give further encouragement to these developments and will renew in a very direct and personal way our commitment to their struggle for freedom and democracies. This trip follows the President's speech on Poland made at Hamtramck on April 17 in which he announced a policy to support these new opportunities, but is contingent on continued progress in reforms.

Looking at Poland, the June 4 elections were just the latest in a series of developments stemming from the unprecedented reform process underway in that country. The roundtable accords signed on April 5 constituted the first major step in this process. The accords provided for the legalization of Solidarity, rural Solidarity, and the Independent Students Union.

Parliamentary elections on June 4 and a runoff scheduled for June 18, including free elections to a new Senate and free elections for 35 percent of the seats in the lower House of Parliamentary

and the establishment of free opposition press, some opposition access to the media and a host of other political and social steps.

The Catholic Church played a major role and supportive role in Poland in bringing this situation about. Major provisions of the round table have been implemented. The first round of the national elections resulted, as you know, in a sweeping Solidarity victory. As to economic reforms, the accords were far less specific and binding. They called for market economic mechanisms, including selling off of large state enterprises.

But the main effort on the economy is still to come. The Polish economy is severely troubled, with inflation at about 75 percent and accelerating, shortages and nearly \$40 billion in debt. The path to economic recovery will be long and difficult. Hungary is also moving toward a more democratic society. Within the next 2 to 5 years a minority or even majority of the Parliament will be composed of non-Communist party members.

The Communist Party will endeavor to maintain control of the security and foreign affairs ministries, but nonparty organizations could gain control of some of the domestic affairs ministries and exert strong influence over key dimensions of public policy, for example, education, housing, health, the environment, freedom of assembly, speech, and press will be allowed.

Hungarian opposition groups and the population at large have an immediate opportunity to help guide their country through a difficult transition toward a more democratic political system and a more market-oriented economy.

The Communist Party is suffering from a crisis of identity in Hungary, as it is in most places in the world. It has been losing membership at a rapid rate, and it recognizes that power sharing is a necessity rather than an option. Although reaction to specific movements by the opposition, that is, overreaction by the Government to specific movements by the opposition cannot be ruled out, the authorities appear to recognize that renewed coercion could end all hope of establishing a new national consensus and ruin any chance of improving the economy with Western assistance.

The economic situation will not improve significantly unless a broad array of radical reform and austerity measures are implemented along with political reforms. These changes in Poland and Hungary have profound importance for U.S. interests. They also pose serious challenges to our policy.

We have long encouraged the sort of steps the Hungarian and Polish Governments have begun to take. While political reforms can create a better basis for economic reform, prosperity will not come immediately, and we see little alternative to economic adjustments. These severe economic strains faced by both countries are the inevitable result of the dysfunctioning of the systems they are trying to reform.

I refer to Poland and Hungary, not just to Polish and Hungarian Governments because the democratic opposition in both countries are also interested in Western economic support. We will need to work with them to see that the hope and promise of a brighter future is kept alive, yet United States and Western resources are finite, and we must take care to use them properly.

We cannot repeat the mistakes or we should not repeat the mistakes of the 1970's, particularly in Poland when credits untied to the necessary reforms helped underwrite the unreformed status quo. Moreover, our ability to use the resources we do have is affected by legal, regulatory, and legislative constraints.

In Hamtramck on April 17 the President stated that U.S. interests in Poland were worth the leadership needed to mobilize United States and Western resources to support reform. At the heart of the President's approach is a recognition that processes headed in the right direction have begun, but only begun, and that our response had to be conditioned upon implementation of both political and economic reforms.

Elaborating on our policy, Secretary Baker on May 23 said that the West should see how it could further the peaceful decentralization of economic, political and social authority in Eastern Europe.

The points the President made at Hamtramck were to announce a specific program for Poland on April 17. Our policy is based on the assumption that reforms will proceed and commitments made at the round table will be met.

The initiative includes support for the Polish private sector, support for trade and investment in Poland through legislative initiatives to provide GSP and OPIC Programs. These are conditioned on workers rates, and we support this and other existing conditionality.

The United States will support viable private sector loans by the International Finance Corporation, part of the World Bank. The way is clear for Poland to begin negotiations with the IMF on a standby arrangement, subject to normal IMF conditions. The United States will work with our allies and other partners through the Paris Club to consider substantial rescheduling of Poland's official debt.

The United States will encourage creative voluntary private sector swaps of Polish debt for equity or for environmental and other projects. Each of these steps is sound. There is no giveaway program. We are proceeding on each of these points and anticipate making progress as the Poles move to implement the roundtable accords.

While the President's speech was made in response to Polish developments, many of its elements could apply to Hungary. We are working on this. Thank you, Mr. Chairman.

[The statement of Mr. Bodde follows:]

TESTIMONYU.S. POLICY TOWARD POLAND AND HUNGARY
To the House Ways and Means CommitteeDeputy Assistant Secretary for European Affairs
William Bodde, Jr.The Opportunity

- PROFOUND POLITICAL, ECONOMIC AND SOCIAL CHANGE IS UNDERWAY IN EASTERN EUROPE AND THROUGHOUT THE COMMUNIST WORLD.
- THE PACE AND PROSPECTS FOR REFORM VARY WIDELY AMONG THE COUNTRIES OF EASTERN EUROPE, AND THE PROCESS THROUGHOUT THE REGION IS VULNERABLE TO SETBACKS, TEMPORARY OR MORE LASTING.
- YET THE REFORM PROCESS HAS MOVED FASTER AND FARTHER THAN MANY ANTICIPATED JUST MONTHS AGO.
- REFORMS IN EASTERN EUROPE ARE MOST ADVANCED IN HUNGARY AND POLAND.
- IN THESE TWO COUNTRIES WE MAY BE WITNESSING THE BEGINNING OF A PROCESS OF DEMOCRATIZATION -- BOTH POLITICAL AND ECONOMIC -- WITH PROFOUND IMPLICATIONS FOR REFORM IN OTHER COMMUNIST COUNTRIES, FOR OUR INTERESTS AND FOR THE SHAPE OF THE WORLD WE HAVE KNOWN FOR OVER FORTY YEARS.
- THROUGHOUT THIS PERIOD, THE U.S. HAS PROMOTED DEMOCRATIC SELF-DETERMINATION AND MARKET-ORIENTED ECONOMIC REFORMS FOR ALL EUROPEAN STATES.
- WE HAVE NOT DONE THIS TO SEEK STRATEGIC ADVANTAGE AGAINST ANY COUNTRY, BUT BECAUSE THESE VALUES ARE CENTRAL TO OUR OWN NATIONAL PURPOSE AND CENTRAL TO A WORLD IN WHICH U.S. INTERESTS CAN BE SECURE.
- IF THE PROMISE OF REFORM IS KEPT, EASTERN EUROPE WILL BE A VERY DIFFERENT PLACE: MORE TRUE TO ITS OWN BEST HISTORICAL TRADITIONS, MORE INDEPENDENT, AND ULTIMATELY MORE PROSPEROUS AND MORE STABLE.
- AS THE PRESIDENT SAID IN HIS SPEECH IN MAINZ AT THE END OF LAST MONTH, THE TIME IS RIGHT FOR EUROPE ONCE AGAIN TO BE WHOLE AND FREE.
- NOT ONLY THE PEOPLES OF THE AREA, BUT THE UNITED STATES, THE WEST, AND THE SOVIET UNION WOULD BENEFIT.
- THE PRESIDENT'S TRIP TO POLAND AND HUNGARY THIS JULY WILL GIVE FURTHER ENCOURAGEMENT TO THESE DEVELOPMENTS, AND WILL RENEW IN A VERY DIRECT AND PERSONAL WAY OUR COMMITMENT TO THEIR STRUGGLE FOR FREEDOM AND DEMOCRACY.
- THIS TRIP FOLLOWS THE PRESIDENT'S SPEECH ON POLAND MADE IN HAMTRAMCK ON APRIL 17, IN WHICH HE ANNOUNCED A POLICY TO SUPPORT THESE NEW OPPORTUNITIES, BUT IS CONTINGENT ON CONTINUED PROGRESS IN REFORMS.

Poland

- THE JUNE 4 ELECTIONS WERE JUST THE LATEST IN A SERIES OF DEVELOPMENTS STEMMING FROM THE UNPRECEDENTED REFORM PROCESS UNDERWAY IN THAT COUNTRY.
- THE ROUNDTABLE ACCORDS SIGNED ON APRIL 5 CONSTITUTED THE FIRST MAJOR STEP IN THIS PROCESS, AND REPRESENTED AGREEMENT ON FURTHER STEPS.
- THE ACCORDS PROVIDED FOR LEGALIZATION OF SOLIDARITY, RURAL SOLIDARITY AND THE INDEPENDENT STUDENTS' UNION; PARLIAMENTARY ELECTIONS ON JUNE 4 AND A RUN-OFF ON JUNE 18, INCLUDING FREE ELECTIONS TO A NEW SENATE AND FREE ELECTIONS FOR 35% OF THE SEATS IN THE LOWER HOUSE OF PARLIAMENT; ESTABLISHMENT OF A FREE OPPOSITION PRESS; SOME OPPOSITION ACCESS TO THE MEDIA; AND A HOST OF OTHER POLITICAL AND SOCIAL STEPS.
- THE CATHOLIC CHURCH IN POLAND PLAYED A KEY SUPPORTIVE ROLE IN THE ROUNDTABLE AND SUPPORTED THE ELECTION PROCESS.
- MAJOR PROVISIONS OF THE ROUNDTABLE HAVE BEEN IMPLEMENTED: SOLIDARITY AND RURAL SOLIDARITY ARE LEGALIZED AND THE OPPOSITION IS PUBLISHING A DAILY NEWSPAPER.

- THE FIRST ROUND OF THE NATIONAL ELECTIONS RESULTED, AS YOU KNOW, IN A SWEEPING SOLIDARITY VICTORY. THE ELECTIONS APPEAR TO HAVE BEEN CONDUCTED FAIRLY AND THE POLISH COMMUNIST PARTY ANNOUNCED THAT IT WILL ABIDE BY THE OUTCOME.
- SOME ELEMENTS OF THE ROUNDTABLE REMAIN TO BE IMPLEMENTED: THE STUDENTS' UNION HAS NOT BEEN REGISTERED.
- WE MUST APPRECIATE THAT THIS IS AN ADVERSARIAL POLITICAL PROCESS: WHILE THE RESULTS SO FAR HAVE BEEN IMPRESSIVE, SETBACKS SHOULD BE EXPECTED TO BE PART OF THE PROCESS.
- AS TO ECONOMIC REFORM, THE ACCORDS WERE FAR LESS SPECIFIC AND BINDING. THEY CALLED FOR MARKET ECONOMIC MECHANISMS, INCLUDING SELLING OFF LARGE STATE ENTERPRISES, BUT THE MAIN EFFORT ON THE ECONOMY IS STILL TO COME.
- THE POLISH ECONOMY IS SEVERELY TROUBLED, WITH INFLATION AT ABOUT 75% AND ACCELERATING, SHORTAGES AND NEARLY \$40 BILLION OF DEBT.
- MOREOVER, IN RECENT YEARS ECONOMIC REFORM IN POLAND HAS BEEN MIXED AT BEST IN IMPLEMENTATION AND IN RESULTS.
- WE BELIEVE THAT THE IMPLEMENTATION OF POLITICAL REFORMS CAN PROVIDE A BASIS FOR SUCCESSFUL ECONOMIC REFORMS, BUT THE PATH TO ECONOMIC AND POLITICAL RECOVERY WILL BE LONG AND DIFFICULT.

Hungary

- HUNGARY ALSO IS MOVING TOWARD A MORE DEMOCRATIC SOCIETY, DESPITE SHARP DIVISIONS WITHIN ITS TOP LEADERSHIP OVER THE CHARACTER AND PACE OF WHAT THE COUNTRY REQUIRES.
- CONCEIVABLY, WITHIN THE NEXT TWO TO FIVE YEARS, A MINORITY OR EVEN MAJORITY OF THE PARLIAMENT WILL BE COMPOSED OF NONCOMMUNIST PARTY MEMBERS.
- IF THIS SHOULD HAPPEN, WE EXPECT THE COMMUNIST PARTY WILL ENDEAVOR TO MAINTAIN CONTROL OF THE SECURITY AND FOREIGN AFFAIRS MINISTRIES, BUT NONPARTY ORGANIZATIONS COULD GAIN CONTROL OF SOME DOMESTIC AFFAIRS MINISTRIES, AND EXERT STRONG INFLUENCE OVER KEY DIMENSIONS OF PUBLIC POLICY, FOR EXAMPLE, EDUCATION, HOUSING, HEALTH AND THE ENVIRONMENT.
- FREEDOM OF ASSEMBLY, SPEECH AND THE PRESS WILL BE ALLOWED, WITH EVERY TOPIC OPEN TO DISCUSSION, INCLUDING HUNGARY'S TIES TO THE USSR, NEUTRALITY, MEMBERSHIP IN THE WARSAW PACT AND CEMA.
- THE THRESHOLD IN THIS RESPECT IS ALREADY RATHER HIGH. CONTINUATION OF HUNGARY'S MEMBERSHIP IN CEMA AND THE WARSAW PACT, AND RETENTION OF ITS POLITICAL IDENTITY IN SOME FASHION AS A SOCIALIST STATE MAY BE THE FINAL BOTTOM LINES.
- THUS, HUNGARIAN OPPOSITION GROUPS AND THE POPULATION AT LARGE HAVE AN IMMEDIATE OPPORTUNITY TO HELP GUIDE THEIR COUNTRY THROUGH A DIFFICULT TRANSITION TOWARD A MORE DEMOCRATIC POLITICAL SYSTEM AND A MORE MARKET-ORIENTED ECONOMY.
- THE COMMUNIST PARTY IS SUFFERING FROM A CRISIS OF IDENTITY AND SELF-DOUBT. IT HAS BEEN LOSING MEMBERSHIP AT A RAPID RATE. WHILE IT IS NOT INTERESTED IN PUTTING ITSELF OUT OF BUSINESS, IT RECOGNIZES THAT POWER SHARING IS A NECESSITY, RATHER THAN JUST AN OPTION.
- THE REGIME CURRENTLY APPEARS DETERMINED TO AVOID COERCIVE MEASURES, AND HAS ALLOWED THE FORMATION OF NEW POLITICAL PARTIES, UNIONS AND INTEREST GROUPS.
- ALTHOUGH OVERREACTION TO SPECIFIC MOVEMENTS CANNOT BE RULED OUT, THE AUTHORITIES APPEAR TO RECOGNIZE THAT RENEWED COERCION COULD END ALL HOPE OF ESTABLISHING A NEW NATIONAL CONSENSUS, AND RUIN ANY CHANCE OF IMPROVING THE ECONOMY WITH WESTERN ASSISTANCE.
- EVEN IF THE POLITICAL SYSTEM IS CONSIDERABLY TRANSFORMED OVER THE NEXT FIVE YEARS, THE ECONOMIC SITUATION WILL NOT IMPROVE SIGNIFICANTLY UNLESS A BROAD ARRAY OF RADICAL REFORM AND AUSTERITY MEASURES ARE IMPLEMENTED ALONG WITH THE POLITICAL REFORMS.

The U.S. Response

- THESE CHANGES IN POLAND AND HUNGARY HAVE PROFOUND IMPORTANCE FOR U.S. INTERESTS. THEY ALSO POSE SERIOUS CHALLENGES TO OUR POLICY.
- WE HAVE LONG ENCOURAGED THE SORT OF STEPS THE HUNGARIAN AND POLISH GOVERNMENTS HAVE BEGUN TO TAKE.
- WHILE POLITICAL REFORMS CAN CREATE A BETTER BASIS FOR ECONOMIC REFORM, PROSPERITY WILL NOT COME IMMEDIATELY AND WE SEE LITTLE ALTERNATIVE TO ECONOMIC ADJUSTMENTS, INCLUDING A DEGREE OF AUSTERITY WHICH IS PAINFUL FOR THE POLISH AND HUNGARIAN PEOPLE.
- THESE SEVERE ECONOMIC STRAINS FACED BY BOTH COUNTRIES ARE THE INEVITABLE RESULT OF THE DYSFUNCTION OF THE SYSTEMS THEY ARE TRYING TO REFORM.
- I REFER TO POLAND AND HUNGARY, NOT JUST TO THE POLISH AND HUNGARIAN GOVERNMENTS, BECAUSE THE DEMOCRATIC OPPOSITIONS IN BOTH COUNTRIES ARE ALSO INTERESTED IN WESTERN ECONOMIC SUPPORT.
- BOTH COUNTRIES WILL SEEK WESTERN ECONOMIC SUPPORT, INCLUDING U.S. SUPPORT, AS THEY PROCEED DOWN THE PATH OF REFORM. WE WILL NEED TO WORK WITH THEM TO SEE THAT THE HOPE AND PROMISE OF A BRIGHTER FUTURE IS KEPT ALIVE.
- YET, U.S. AND WESTERN RESOURCES ARE FINITE. AND WE MUST TAKE CARE TO USE THEM PROPERLY. WE CANNOT REPEAT THE MISTAKES OF THE 1970'S -- PARTICULARLY IN POLAND -- , WHEN CREDITS UNTIED TO NECESSARY REFORMS HELPED UNDERWRITE THE UNREFORMED STATUS QUO.
- MOREOVER, OUR ABILITY TO USE THE RESOURCES WE DO HAVE IS AFFECTED BY LEGAL, REGULATORY AND LEGISLATIVE CONSTRAINTS.
- IN HAMTRAMCK ON APRIL 17, THE PRESIDENT STATED THAT U.S. INTERESTS IN POLAND WERE WORTH THE LEADERSHIP NEEDED TO MOBILIZE U.S. AND WESTERN RESOURCES TO SUPPORT REFORM.
- AT THE HEART OF THE PRESIDENT'S APPROACH IS A RECOGNITION THAT PROCESSES HEADING IN THE RIGHT DIRECTIONS HAD BEGUN, BUT ONLY BEGUN; AND THAT OUR RESPONSE HAD TO BE CONDITIONED UPON IMPLEMENTATION OF BOTH POLITICAL AND ECONOMIC REFORMS.
- ELABORATING ON OUR POLICY, SECRETARY BAKER ON MAY 23 SAID THAT THE WEST SHOULD SEE HOW IT COULD FURTHER THE PEACEFUL DECENTRALIZATION OF ECONOMIC, POLITICAL AND SOCIAL AUTHORITY IN EASTERN EUROPE.
- WE HAVE BEEN CONSULTING CLOSELY WITH OUR ALLIES; THEIR THINKING IS VERY SIMILAR TO OURS.

Hamtramck Points

- AFTER CAREFUL CONSIDERATION AND CONSULTATIONS WITH OUR ALLIES AND POLAND'S OTHER WESTERN PARTNERS, THE PRESIDENT ANNOUNCED A SPECIFIC PROGRAM FOR POLAND AT HAMTRAMCK ON APRIL 17.
- OUR POLICY IS BASED ON THE ASSUMPTION THAT REFORMS WILL PROCEED AND COMMITMENTS MADE AT THE ROUNDTABLE WILL BE MET.
- THE HAMTRAMCK INITIATIVE INCLUDES:
 - o SUPPORT FOR THE POLISH PRIVATE SECTOR, FOR EXAMPLE THROUGH NEGOTIATION OF A PRIVATE BUSINESS AGREEMENT, NEW PRIVATE SECTOR TRAINING AND EXCHANGE PROGRAMS;
 - o SUPPORT FOR TRADE AND INVESTMENT IN POLAND, THROUGH LEGISLATIVE INITIATIVES TO PROVIDE GSP AND OPIC PROGRAMS. THESE ARE CONDITIONED ON WORKER RIGHTS, AND WE SUPPORT THIS AND OTHER EXISTING CONDITIONALITY.
 - o THE U.S. WILL SUPPORT VIABLE PRIVATE SECTOR LOANS BY THE INTERNATIONAL FINANCE CORPORATION (PART OF THE WORLD BANK).
 - o THE WAY IS CLEAR FOR POLAND TO BEGIN NEGOTIATIONS WITH THE IMF ON A STAND-BY ARRANGEMENT, SUBJECT TO NORMAL IMF CONDITIONS.
 - o THE U.S. WILL WORK WITH OUR ALLIES AND OTHER PARTNERS THROUGH THE PARIS CLUB TO CONSIDER SUSTAINABLE RESCHEDULING OF POLAND'S OFFICIAL DEBT.
 - o THE U.S. WILL ENCOURAGE CREATIVE, VOLUNTARY PRIVATE SECTOR SWAPS OF POLISH DEBT FOR EQUITY OR FOR ENVIRONMENTAL AND OTHER PROJECTS.

- EACH OF THESE STEPS IS SOUND ON ITS OWN TERMS; THERE IS NO GIVE-AWAY.
- WE ARE PROCEEDING ON EACH OF THESE POINTS AND ANTICIPATE MAKING PROCESS AS THE POLES MOVE TO IMPLEMENT THE ROUNDTABLE ACCORDS.
- WHILE THE HAMTRAMCK SPEECH WAS MADE IN RESPONSE TO POLISH DEVELOPMENTS, MANY OF ITS ELEMENTS COULD APPLY TO HUNGARY; WE ARE WORKING ON THIS.
- THE HAMTRAMCK PRINCIPLE OF CONDITIONAL SUPPORT FOR POLITICAL AND ECONOMIC REFORMS IS THE FOUNDATION OF OUR POLICY AS WE PREPARE FOR THE PRESIDENT'S JULY TRIP TO POLAND AND HUNGARY.
- IN THE END, HOWEVER, WE CANNOT LET THE CHALLENGE OF REFORM OVERWHELM THE PROMISE. AFTER FORTY YEARS OF SEARCHING AND PRESSING FOR THE SORT OF THAW IN THE COLD WHICH WOULD LET THE SEEDS OF DEMOCRACY SPROUT, WE'VE GOT TO BE PREPARED TO HELP KEEP THESE YOUNG PLANTS OF REFORM ALIVE AND GROWING. PRUDENT AND CONDITIONAL, YES, BUT SURELY IT IS A PROCESS WORTH SOME INVESTMENT.

Chairman GIBBONS. I listened real closely. I don't know whether you are for or against any of these bills. Where do you stand? Do you speak for the administration?

Mr. BODDE. Yes.

Chairman GIBBONS. Well, now, where does the administration stand on this legislation? We have to vote yes or no on it.

Mr. BODDE. On some of the legislation, Mr. Chairman, we are still in the administration considering it. We don't have full administration clearance, but let me talk about the principles which we do support. We do support OPIC authority for both Poland and for Hungary.

We support GSP for both Hungary and Poland. In the case of Hungary we don't need new legislation because it already exists, but we would have to look at the criteria that are required, the seven criteria for GSP, and we would therefore support—we expect to be able to support GSP for Hungary.

We would be asking for or supporting particular legislation in the case of OPIC for both and for GSP for Poland because we don't have that already.

Chairman GIBBONS. Well, then, none of the bills that are before the committee today are you all satisfied with.

Mr. BODDE. Well, we do support H.R. 2356, I am told by my experts here; 5550, however, is still out for clearance, but I think you can assume, Mr. Chairman, that the reaction to the bill will be based on the principles that I just enunciated, which is to support these two processes for both Hungary and for Poland.

Chairman GIBBONS. But on Hungary, you still want to keep them under Jackson-Vanik?

Mr. BODDE. Yes. It is not so much to keep them under Jackson-Vanik, but we think Jackson-Vanik will offer the opportunity, once they have passed the appropriate legislation that will be—that will mirror their current practice on emigration. They should fully qualify for Jackson-Vanik, and therefore, they will get all the rights and privileges under Jackson-Vanik.

Chairman GIBBONS. Which means any time the President changes his mind, Jackson-Vanik is gone?

Mr. BODDE. Which means that if we had a situation, say—I mean, as we can see has happened in other parts of the world, where a reform movement suddenly stopped and there was repression or a change in the behavior of the government, yes, the President could then stop it.

Chairman GIBBONS. Do you think that is going to encourage American investment in Hungary? Or any kind of business relationship with Hungary, based upon that whim that if the President changes his mind—

Mr. BODDE. Well, I think what will encourage private investment in Hungary is an assessment on the part of the investors that, A, the business climate looks like it is a functioning, attractive climate, and that they are on their way to—they continue to be on their way to reform. I don't think the fact—

Chairman GIBBONS. I agree with you, but nobody can predict that any reform movement, once started, is going to continue indefinitely. I can think of a few times the American Revolution almost came to a halt, but fortunately we had better friends then than we

are friends now and somebody had faith in us and went ahead and supported us. But what you present us with now is the whim of the President—and I don't say that lightly, because I know he is not the whimsical sort—but at the whim of the President, you are back at old Smoot-Hawley levels again as far as tariffs are concerned.

And what person in his right mind is going to make a substantial investment in developing trade or investment in that kind of circumstance?

Mr. BODDE. Again, Mr. Chairman, I think it will depend on the assessment of the situation by businessmen in the situation in Hungary. We did, of course, in the case of Romania, reverse your position.

Chairman GIBBONS. Well, frankly, I never thought you had much basis in Romania, anyway. Anybody who ever had been there knew that was the most repressive regimes in Eastern Europe run by one gentleman whom I will not characterize further. You all loved him because he said all the right things, he said all the nasty Cold War things about Russia, and you all worshipped him. But anybody who had been there and seen how the country operated wouldn't ever have thought that Romania had much of a chance.

Mr. BODDE. As I said, we are very encouraged by developments in Hungary.

Chairman GIBBONS. Well, I think history will record that nobody other than Russia has done anything less to promote freedom in Eastern Europe than the United States. I don't say that lightly, either. I feel very strongly about it.

I think our country should have been out there leading, but even the Japanese have done better by Eastern Europe than we have. I think our policy is still rather negative. Those people have gotten along really well without us in all these 45 years since World War II, and they can get along without us a little bit longer if we continue to preach to them.

If we go over and do some proselytizing and some missionary work, I think we can make freedom grow. But our whole point, as I understand it, is to preach to them and let everybody else take the risk. We are not willing to take any risk at all, it seems to me from your testimony.

You want it all on a platter and served up to you, and then maybe condescendingly, we will move them out of the Smoot-Hawley tariff category. That is how it sounds to me, Mr. Bodde.

Mr. BODDE. We obviously, Mr. Chairman, have—

Chairman GIBBONS. We sure do, and I am sorry I have had to drag the administration along on this issue so long. I really feel strongly about it. I think no one other than Russia has done less for the freedom of Eastern Europe than we have, and I feel bad about that. We are the ones that consigned them to the Russians. I hate to say it was President Roosevelt, but he and Winston Churchill, in a case of bad judgment gave them away, and we have done nothing but bemoan the fact that they are controlled by the Russians ever since.

We have done nothing to risk going out there and trying to help that part of the world free itself from the kind of oppression we helped put them in. It is a silly policy, one of the most idiotic policies I have ever seen this government follow.

Look how much good we did in Western Europe when we extended the hand, and to Japan, to extend the hand of help and to take a risk. But we wouldn't take a risk with people who are just as much European as the French or the Germans or the Italians are. I don't understand our policy, really. I think it is a very negative and very backward policy, but we are at least glad to have you come halfway into the 20th century with us on this matter.

Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. Bodde, I have the same problem the chairman does. As far as I know, we have not had any complaints about Hungary. Are you aware of any?

Mr. BODDE. I am sorry, you said complaints about?

Mr. FRENZEL. About Hungary. We have been giving them extensions year by year, in MFN, for 10 years now, more or less, and I don't recall having heard emigration complaints or family unification complaints. I think our relationship with Hungary has been pretty good, and our commercial relationship has been responsible. Are you aware of any major problems with Hungary?

Mr. BODDE. No, I am not. I do know, though, that in some of the trade unions of America, have been more reluctant about labor conditions in Hungary in the past and have only recently come around to agreeing that those conditions have significantly changed, but what I have been attempting to say to you, Congressman, and to the chairman, is that we are—A, we support GSP for both of these countries; B, we support OPIC for both of these countries; C, we think that Jackson-Vanik will come into being, and one can argue about the right of the President or the discretion of the President to turn it off if there were reason because of repression in Hungary.

The point is, we are trying to encourage it. I think we are on the same wave length in the sense of we want to encourage further reform and democracy in these countries, and in fact, although one can have a different view, obviously, of our treatment of Eastern Europe, we have supported Solidarity morally and otherwise through its darkest days of the martial law in Poland, and I know personally, and I went on the advance trip for the President when he was Vice President, negotiating with the Polish Government that we would be able to receive Lech Walesa, and that we would be able to demonstrate through appearing with him in public that we could demonstrate our support for Solidarity, so it is not that we have walked away from these people and not that we haven't supported them.

One can argue about the degree of support, but it has certainly not been the policy of this administration or the administration before it to not sponsor or not to encourage reform and democracy in either of these countries.

Mr. FRENZEL. I don't think I am challenging whether you are sponsoring democratic reforms or not. What I am questioning is what do we have to do to develop a better trading relationship on a permanent basis with the State of Hungary?

I don't know what more Hungary can do. I don't think we expect other nations to replicate all of our democratic reforms, but I am concerned, as Mr. Gibbons is, that if I were a business person, I

would have difficulty with investment if I knew I had to stand for reelection every year over Jackson-Vanik.

My understanding of that situation was that it was to be a conditional thing, but we have now run it about 10 years conditionally, and it is time to move on to something else. I would like to know why the administration wants to leave the current arrangement. I do not understand that reason.

Mr. BODDE. Mr. Frenzel, our position on Jackson-Vanik for Hungary is, if I understand the law as it exists right now, requires both practice and the legal basis for a practice. In practice, there is no doubt that the Hungarians have fulfilled the requirements of Jackson-Vanik. They have not, as far as the legal underpinnings of that practice.

They are about to do that. And we are about to—and then we have no problems at all with seeing that they have full Jackson-Vanik. The question is, is full Jackson-Vanik—that is the possibility that under certain conditions, it would be withdrawn, is that a viable position for the U.S. Government, and there we are—that is where the disagreement is. It is not any disagreement that they shouldn't get Jackson-Vanik or that we shouldn't do everything we can to encourage increased trade between Hungary and the United States.

Mr. FRENZEL. Well, when will it be appropriate for us to remove this ban? What kind of a country are we going to be able to do it for?

Mr. BODDE. We will be able to do it for Hungary shortly. They are in the process now of reforming their laws so that they fulfill this requirement under Jackson-Vanik.

Mr. FRENZEL. Well, they are codifying what is current practice.

Mr. BODDE. That is right.

Mr. FRENZEL. Don't you believe in current practice?

Mr. BODDE. I believe in current practice, but I understand now, as the law is written, you need both practice and codification.

Mr. FRENZEL. If the law is enacted by whatever authority exists over there, will you then support this bill?

Mr. BODDE. We will then support Jackson-Vanik because they will have qualified for it.

Mr. FRENZEL. You qualify now, because you clear them every year. They aren't unqualified.

Mr. BODDE. It would—they codify if they codify their practice, and we grant them normal Jackson-Vanik. It would be more than on an annual basis. It would be 2 to 3 years at a time.

Chairman GIBBONS. Would the gentleman yield at that point?

Mr. FRENZEL. I yield.

Chairman GIBBONS. Will you point out for me in Jackson-Vanik where it requires a change in law? I have read that thing 100 times, and I have never come across that. That is a new requirement you put in. The law only requires that a country practice freedom of emigration. I have never, in all the years I have been listening to Jackson-Vanik, heard someone say they had to change the law in order to do it. It was always, change the practice.

Mr. BODDE. Mr. Chairman, let me take that question. Our lawyers have told me that we do, but I would like to get back to you.

[The following was subsequently received:]

If the President finds that a country meets the emigration standards of the Jackson-Vanik amendment (Section 402(a)(1-3)), the President is required to submit a report so stating to the Congress on or before June 30 and December 31 each year. Section 402(b) of the Jackson-Vanik amendment states that "such report with respect to such country shall include information as to the nature and implementation of emigration laws and policies and restrictions of discrimination applied to or against persons wishing to emigrate."

Thus, it was clearly the intent of the legislation for the President to consider the emigration laws and practices of a country before making it eligible for most-favored-nation status pursuant to Section 402(b). We believe it is prudent and consistent with the intent of the Jackson-Vanik amendment for the Administration to await the adoption of Hungary's new emigration law before making it eligible for most-favored-nation status without the requirement of an annual waiver.

We also note that there is no real penalty to Hungary in the interim since the President, in effect, continued Hungary's most-favored-nation status for another year by exercising the waiver authority of Section 402(c) on May 31.

Chairman GIBBONS. Well, I worry about your lawyers, then. They better go back and take the Bar exam over again. Let me say—I think I understand Jackson-Vanik. It has been before this committee long enough. As I say, Mr. Frenzel points out for 10 years, you have granted Hungary a waiver under Jackson-Vanik, but the trouble with Jackson-Vanik is that any time the President changes his mind, he can rescind MFN treatment. Lord knows who could become President.

Who is going to make an investment when really nothing has changed in 10 years? You have been giving them Most Favored Nation treatment for 10 years.

We haven't ever been able to get anything established over there because no one is willing to take a chance. What makes you think that Congress, if the President asked them, wouldn't come in and repeal most-favored-nation treatment? We usually jump out ahead of the President when somebody fouls up.

I have no doubt that Congress would like to go further than the President already has gone on China, but I think the President has had a measured response to China. But if the average American Congressman got hold of that issue, we would whack China in the head real hard, but fortunately, we are not going to do it. But you are really not changing the status quo as far as Hungary is concerned. Nothing changes with your position. We might as well not do anything.

You have already been granting them most-favored nation treatment for 10 years, anyway.

Mr. BODDE. Well, it seems to me, Mr. Chairman, that if they qualify, which they will, for OPIC and for GSP, and for our other initiatives on the private investment side, the climate will indeed encourage American investment in Hungary, and I think it is likely to follow.

Chairman GIBBONS. Go ahead, Mr. Frenzel. I am sorry I interrupted.

Mr. FRENZEL. What bothers me is something that I think the chairman hinted at. In years past, the chairman and I have always struggled to support the administration as it sought to extend MFN or to grant it in the first instance, and Congress has been much more reluctant, I think, than at least the last four Executives in extending or granting MFN.

Now, we have a reluctant administration which is content to extend or grant MFN 1 year at a time for 10 years or 20 years or whatever, but isn't willing to make commercial intercourse worthwhile for a 5-year time span. I think you gentlemen need a little regroup and review, because it doesn't seem to me that you are offering us anything.

If they rewrite their laws, you might give them 2 years. May I say that it is hardly worth the effort.

Mr. BODDE. Of course, they would not need any waiver in that case, and therefore, it would flow more evenly, but I understand what you are saying.

Mr. FRENZEL. Okay. I think what we are trying to tell you is that you are probably a mile behind the feeling of this subcommittee, and it may not be true with the whole Congress, but I for one would like to have you look at this. As I have studied Eastern Europe over the past dozen years, there has been one country that has always been in the forefront, easy for us to do business with, better organized for Americans to do business with, member of the GATT, member of the IMF, member of everything, with no problems of emigration, no problems of family unification, and the United States I don't think has made an appropriate response to that kind of a record.

Instead, we have done the year-by-year extension, and I believe it is time for you folks to take a look at it and make some sort of response. If you cannot support this kind of proposal, then I think you have to tell us what kind of a proposal you can support, and what you expect for the future. Maybe Mr. Gibbons has a better idea from your testimony, but I don't have an idea of what you are going to do other than come up a year from now and say, we are going to have another extension.

Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. I don't have anything.

Chairman GIBBONS. All right. Thank you very much.

[Subsequently, the following questions and answers were received:]

Question. The GSP program is aimed at assisting developing countries. How can Poland, therefore, be included in the program?

Answer. The GSP program has a statutory per-capita gross national product (GNP) limit for GSP beneficiary countries. Under the law, if the President determines that a country for any calendar year after 1984 exceeds that limit, that country is not eligible for the GSP program.

The per-capita limit is calculated according to a set formula. The per-capita GNP level for 1988 is \$9,728.

Individual country per-capita GNP figures are calculated using the best available information, including from the World Bank. According to World Bank figures, Poland's per-capita GNP (as defined in 1986 dollars U.S.) is about \$2,070. This figure compares with other GSP-eligible countries like Israel—\$6,210, and Yugoslavia—\$2,300.

One reason for this is that Poland's per-capita income by Polish figures fell by 25 percent for 1978-1981.

CHAIRMAN GIBBONS QUESTION FOR THE ADMINISTRATION

Question. Mr. Bodde stated in the question and answer period that legal counsel at the Department of State has indicated that the Jackson-Vanik provision (Title IV of the Trade Act of 1974) requires codification of liberalized emigration practices

before a country can be found in compliance with the Jackson-Vanik conditions relating to freedom of emigration. Such a finding authorizes the President to grant most-favored-nation treatment, subject only to semiannual reporting requirements.

What provision of the Jackson-Vanik amendment specifies that *codification* of liberalized emigration practices is a precondition for a Presidential finding that a country meets the terms of the law, thus allowing him to grant MFN?

[See response at p. 22.]

Chairman GIBBONS. Let's go on to the next witness, the American Association of Exporters and Importers, Mr. Milosh.

STATEMENT OF EUGENE J. MILOSH, PRESIDENT, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, ACCOMPANIED BY WILLIAM GALLO, CHAIRMAN, UNITED STATES-POLISH TRADE EXPANSION GROUP, AND PRESIDENT AND OWNER, SAXTON HALL, NEW YORK, NY

Mr. MILOSH. Mr. Chairman, I am Gene Milosh, President of AAEL. With me today is Bill Gallo, president of Saxton Hall and chairman of the Association's newly created Poland-Hungary Trade Expansion Group.

Previously to my current position, I spent 6 years as vice president of operations for the Bilateral U.S.-U.S.S.R. Trade and Economic Council, from 1974 through 1980, the rise and demise of détente, and I spent time with some introspection on my part, for very few projects during that détente period actually reached fruition.

There are a handful that we all read about, but by and large, there was not a broad acceptance of a solid business relationship.

Now, after 4 years of perestroika, I do sense a bit of déjà vu setting in, and the reason for that is United States-Soviet trade has actually declined and, practically speaking, economic decentralization, market access, pricing based on supply and demand factors are still not operating, and without a truly decentralized business institution within the Soviet Union and decisionmaking at the local enterprise level, the Soviets are still relying on big targeted technology projects to propel them into the 21st century.

It is perhaps ironical that perestroika has another meaning in Russian. That is, a costume change between acts. On September 23 of last year, I testified before the House Committee on Small Business, where I outlined past Soviet practices and rigidities. The conclusion was that without the involvement of small and medium-sized Western firms in an open and decentralized basis, perestroika cannot achieve success.

In contrast, Poland and Hungary offer unique opportunities. It is important for the United States to help Poland and Hungary during a transition period whereby pluralism and decentralization through democratization is making real progress. While immediate adoption of GSP benefits by Poland are modest, amounting to only \$3.5 million in duty reduction for current exports of about \$73 million, the potential application to other product groups over time could expand GSP trade up to \$300 million.

OPIC loans and guarantees would assist immeasurably in this process. With limited capital resources in the West, it is prudent for businesses and financial institutions to concentrate their efforts on smaller and medium-sized projects for shorter payback periods,

and for projects demonstrating export opportunities in areas of specialization rather than expanding capital resources for large, long-term projects in the Soviet Union.

Europe is beginning to adopt this thinking as pointed out in my testimony, and should also be a goal of the United States. Mr. Gallo will now discuss the favorable climate and market access that is now available in Poland from his own firm's experience.

Mr. GALLO. Gentlemen, I would first like to initially express my thanks to this committee for the opportunity to participate at this hearing. Frankly, I have never testified before a congressional committee before, and I really consider it a momentous and auspicious occasion, really, but on to the business at hand.

As chairman of the Polish-Hungarian Trade Expansion Group, I represent companies active in Polish-Hungarian trade, but perhaps to better illustrate the point I should relate my own company's experience of doing business in Poland over the past few years, but perhaps I should also give you some sort of history of my company.

My father immigrated here from Italy in 1914, and he started a domestic business, an outer wear, lady's apparel business. We evolved into today an importing domestic company because of the facts as they are, as exist in this country.

We found that it is necessary in the scheme of things to pursue an import business. Now, we are in the textile business and deal worldwide in the Far East, South America, Eastern and Western Europe, and we also have been doing business in Mainland China for many, many years.

However, Poland has an attractive atmosphere to do business in recent years; namely, it permits a more flexible environment to achieve your particular purpose without bureaucratic interference. For instance, in our case, we export from Italy to Poland wool fabric to make the button-out, warmer portion of a raincoat.

From Korea, we export the buttons and other trim necessary to complete a very fine product. This is done not only to supply Poland with the increments it cannot supply itself, but also makes available these increments at more advantageous prices. We are currently investigating the feasibility of exporting American fabrics and other needed increments to produce additional apparel from Poland.

The resulting advantage of this to both countries is self-evident and would be devoid of any Polish bureaucratic interference as well as, and this is an important point, it would give American products market access in a country in which it does not have that access.

Further indication of relaxed atmosphere is that for a business person, visa extensions are automatic. Should you ever delay in performing your business duties there, it is an automatic extension. This is new. This has just come about in the last 6 months. It makes it very convenient when you are under a pressed schedule to perform your business.

Furthermore, there are more common goals between their management and the workers, which of their own nature stimulate success. I use the same result-oriented approach there as I would here or any other place in the world. They understand more every day

that result orientation is necessary for successful competitiveness in the world market.

The question of investment in equipment to gain better production efficiency, quality and consequential price competitiveness is a possibility, and in our own case, as our success continues, it may become a reality.

However, I think it is important to note that GSP does not cover textiles, which means that within a few years, this country may find it necessary to accommodate Poland in this sensitive area.

There are many other importing companies experiencing similar success in Poland. These include importers of food products, gift products, glass products, just to name a few. We are presently soliciting input from many other U.S. import and export groups involving many of the various industries doing business in Poland or desiring to do business in Poland as well as Hungary.

The interest thus far has been very encouraging. Our Association, AAEL, is working very closely with OPIC to explain developments in both countries. We are also giving information to the American business community via seminars and the interchange of business delegation to and from Poland and Hungary.

I hope that my input to this committee of my company's own success in Poland would give you a clear insight why GSP should be granted to Poland. Thank you for the opportunity to be of service. Our Association stands ready to supply to you any further information you require. I invite any questions that you may have. I hope I can be responsive.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS,
BY EUGENE J. MILOSH, PRESIDENT

Mr. Chairman:

As President of the American Association of Exporters and Importers, I am appearing before the House Subcommittee on Trade, Committee on Ways and Means, to express the Association's view on liberalizing trade with Poland & Hungary and, specifically, to support the Administration's effort under Section 2 of H.R. 2356 authorizing the President to designate Poland as a GSP beneficiary.

AAEI, established in 1921, is a nationwide, non-profit association, comprising some 1200 American firms and service organizations engaged in various and diverse exporting and importing operations. The Association is a recognized voice of the American international trade community and welcomes the opportunity to present its views in support of this worthwhile endeavor.

Both American exporters and importers see it as imperative that the U.S. Generalized System of Preferences be extended to include Poland. Perhaps no scheme, based on the unselfish motive of helping others, in the annals of international trade has brought a greater return to the donor.

In practice, the GSP program is under-utilized, as evidenced by the fact that duty-free imports of GSP-eligible articles from Beneficiary Developing Countries (BDC's) have typically accounted for only about 3% of total U.S. imports. Despite availability of duty-free entry for qualified eligible products from some 140 BDC's, over 70% of U.S. imports of those products are from industrialized countries ineligible for GSP benefits. Significantly, less than 14% of GSP-eligible articles enter the U.S. duty-free.

Nevertheless, the GSP countries, as a group, purchase from the U.S. nearly 40% of total U.S. world-wide exports. Their GSP earnings have helped them do that -- and today the healthiest segment of the U.S. trade balance is with the GSP beneficiary countries.

The GSP has helped American industry meet intense foreign competition by providing less-expensive parts and materials from beneficiary countries for incorporation into U.S.-manufactured products. Many of those American products have succumbed to competition from particular industrialized countries in the absence of GSP-benefiting inputs. At a time of severe foreign exchange crises for heavily-indebted developing countries, their foreign exchange earnings from the GSP have helped avoid default and all of its consequences for the world economic system. The GSP also reduces the need for direct economic aid to those countries.

All of these are substantial economic benefits to American industry, American workers, and American consumers having occurred without perceptible harm to industry or labor. A true balance sheet of this system would show the United States with a net gain from its GSP operations.

The record shows little exposure of U.S. import-sensitive products to GSP competition. The fact is, import-sensitive products have not been designated for GSP benefits and the existing annual review process has facilitated the prompt removal from eligibility of articles found to be import sensitive in the context of GSP. Furthermore, most GSP products carry low duty rates, which have been reduced even more than average in the Multilateral Trade Negotiations, of itself a strong indication that GSP-eligible products are not import sensitive.

The GSP has also brought the U.S. advantages on the geopolitical and diplomatic fronts. The major beneficiaries are among our most important allies and friends. Located as they are in prime strategic areas of the world, their friendship is invaluable. The trade relationships we have forged should prove lasting and durable, serving the U.S. in many ways.

A strong U.S. Generalized System of Preferences is a prime asset to the United States. Motivated by enlightened self-interest, the European Communities and Japan, as well as other industrialized nations, have their own GSP programs. The international system of burden sharing, represented by the various generalized preferential schemes of donor nations, is a vital part of an equitable system of international trading.

In the case of Poland, the GSP benefits are truly modest and represent only a potential \$2.6 million savings in duties applied to current Polish exports to the United States. While the net effect may be to increase these exports incrementally, providing GSP benefits to Poland symbolizes a willingness to help Poland during a difficult economic transition. It may be with renewed interest on the part of many U.S. importers, and a desire on the part of enterprises to seek export opportunities, that other products covered by GSP could be developed for export. A good barometer of the potential growth would be to compare Poland with Yugoslavia where GSP exports to the United States amount to \$300 million, almost five times more than Poland. An analysis of the products also indicates that Poland has the capability to increase production in many small and medium size enterprises with proper assistance from U.S. firms. Combined with OPIC investment guarantees, a more favorable climate for trade and investment expansion could be realized. In this context, Poland and Hungary should be viewed apart from the other Eastern countries and the U.S.S.R. in terms of the type of trade that is prevalent and the chances for growth.

There are three levels of international trade in East-West relations that should be noted. First is the commodity level of trade. The chemical industry is a prime example as it illustrates success in the development of international trade. Since the mid-sixties, without much encouragement from government, East-West trade in chemicals flourished. Traditionally, any industrially-mature chemical industry will buy and sell to meet everyday shortfalls in production. Often these needs can only be met by importing and exporting of intermediates, catalysts, solvents, resins and the like. In a sense, the chemicals themselves are traded to an extent that they become a form of international currency. Similarly, many agricultural, mineral and energy commodities have been traded extensively without much fanfare. A change in structure or decentralization of buying practices will not dramatically alter these trade patterns. While macro-economic factors, such as availability of credits, could have an impact on trade volumes, they will nevertheless find their own level based on supply and demand factors. For instance, the current level of commodity chemicals, agricultural and mineral trade is \$2.5 billion annually with the U.S.S.R. or 80% of total trade. Paradoxically, a more effective restructuring of the Soviet agricultural sector would probably decrease agricultural trade between the U.S. and the U.S.S.R. Another anomaly has been the recent Soviet purchase of \$400 million of sugar to fill shortages experienced in the U.S.S.R. because of poor harvest, hoarding, and the use of sugar to produce vodka.

The second strata of trade involves pursuit of large integrated joint venture projects and is synonymous with a U.S.S.R. planned-economy mentality. Newspaper headlines flourish in reporting these joint ventures and seem to capture the fancy of Chief Executive Officers in the West and self-serving Senior Foreign Trade Officials in the Soviet Union, but rarely blossom into business abundance. Liberalized joint

venture regulations, reinterpretation of investments, leased ownership, hiring labor under contracts, capital repatriation formulas, share in management and like manipulations, and ideological fine tunings have not resulted in expansive breakthroughs. Coveted steel, automobile, computer, machinery, paper, food and chemical multinationals will not flock to Eastern Europe for the purpose of establishing large joint venture plants and distribution systems. Political risk, trade laws (dumping, countervailing duty, sections 201 and 406), technology export controls, inconvertible currency, U.S. stockholder reaction and cultural intrusion are formidable obstacles to overcome with these visible large scale projects. For U.S. firms, a nebulous hope of obtaining a foothold in a large future market is difficult to rationalize compared to the alternative of establishing an operation in some other global marketplace with fewer encumbrances, uncertainties and definable risk/profit ratios. For these reasons, overreliance on large projects is not prudent and will not lead to quick results beyond protocol agreements and the usual costly exchanges in delegation visits.

The much heralded American Trade Consortium, for instance, is placing its bets on the Chevron Corporation locating oil deposits based on analysis of complicated Soviet seismographic computer data, and trial drilling in remote and climatically difficult regions. Thereafter, if successful, Chevron and the Soviets would have to expand to full drilling operations, secure huge financing, design and install a transportation system and sell the oil profitably to obtain hard currency reserves and credits for other projects in the consortium. The chances for this project reaching reality, if at all, are small and realization is five to ten years away. Recently, Chevron has been attempting to obtain \$2 billion in financing from European banks without apparent success. Ford also has pulled out of the American Trade Consortium due to the complexity of obtaining long term financing and the uncertain 10 year gestation period of the entire project.

Last month I had an opportunity to travel within Europe as part of a USIA program and met with several banking institutions. The general feeling was that capital for large, long term project financing in the U.S.S.R. was indeed limited and that the main interest would center on shorter term projects in Eastern Europe of 2-5 year payback periods tied to definable export opportunities. In the last week of May, this was further confirmed by an International Management Symposium in St. Gallen, Switzerland attended by business executives from all European nations. As reported in the Financial Times of May 30 "The spirit of Glasnost was alive and well in St. Gallen. But the assembled businessmen also sent a hard-headed message to Moscow to the effect that large-scale Western investment in the U.S.S.R. will not be possible until the Soviet Union learns about profits and how to calculate costs and prices in the same way as the West."

Presently the only viable course to be followed with more vigor and determination towards meaningful change is in the third level of trade, namely, allowing complete market access for businessmen so that small and medium size businesses are able to pursue projects at all levels wherever buyers and sellers see an opportunity for profitable ventures. In addition to market access, this level of trade also presupposes complete liberalization in the facilitation of trade contacts and making management decisions at the operating level which is inherent in a policy of liberalization and pluralism. This entails flexibility in various republics and local industrial entities to underwrite risk, conduct market-oriented international trade, develop an entrepreneurial spirit, form new business entities and private cooperatives as well as establishing a vested relationship between workers and managers. In Poland, for instance, recent strides have been made in apparel manufacturing by U.S. importers providing machinery investments with guarantees of export product deliveries to the U.S., provisions for import of fabrics from West Europe, and

acceptance of worker training on new equipment. One of the largest U.S. retailers will distribute apparel products from Poland this year with tremendous potential for growth next year. Undoubtedly, Poland will receive favorable credit consideration and improved import quota allocation because it has encouraged real market access and pluralism between workers and government. The American Association of Exporters and Importers urges the United States Administration and Congress to view developments in Poland favorably by providing GSP benefits. Such benefits could be best utilized in the third level of trade which has the greatest potential for economic growth and cooperation, especially for the small and medium size businesses. In the process, everyone will benefit. This expansion of trade should serve as an example for like conduct in other East European countries and republics.

Since every business is an entity and a business unto itself, an unencumbered opening of the business community internationally will improve the feasibility of finding cooperating partners and discovering niches that overcome current structural barriers. However, more importantly, the thrust for acceptable change and improvement will come from within the business community rather than from insulated bureaucrats. East European Government leaders and newly-elected officials should be aware that most businesses start small, building into large conglomerates over time. Similarly, it would be unrealistic to attempt to transform "Mother Russia" into "Russia, Inc." solely at the top with a few large projects while ignoring the broader potential of many small to medium size ventures in Poland, Hungary and other East European nations. In essence, for the Soviet and East European consumer, service and applied technology industry sectors to improve under perestroika, it must also encompass small and medium size enterprises able to attract international business participation. While this is apt to develop more rapidly in Eastern Europe for a variety of reasons, the U.S.S.R. will again be left behind unless the new leadership takes into account the third level of trade for its' own economic and political well being.

In the meantime, the United States, as Europe is already doing, should concentrate on efforts to build economic ties and business connections with Eastern European countries such as Poland and Hungary. From an investment point of view, the limited capital available would go a longer way in promoting Western interests even though the net debt ratios are less attractive compared to the U.S.S.R. However, it makes little sense to use up what capital is available for huge Soviet projects when the adversarial relationship has not vanished, Glasnost has not been put to the test of embracing real democracy, and perestroika is not a working reality nor is it irreversible. As A.M. Rosenthal of the New York Times wrote recently "Admiration (of Mr. Gorbachev) may be justifiable - but not the slavering Western eagerness to throw resources into the struggle for the survival of the Soviet Communist System. That should be Mr. Gorbachev's struggle alone."

For too long it has been a pattern to generalize U.S. trade with the U.S.S.R and Eastern Europe in glowing but imprecise terms such as "Improved East-West Relations", "Mutually Beneficial Trade Within a Legal Framework", "Building Bridges" and "Business Detente". Although opportunistic sounding, these platitudes obscure the reality of the situation which has not advanced to the point of anything meaningful. Rather than wishful thinking and masking East-West trade with false imagery, it is necessary to consider the real potential for change, essential in actually bolstering trade between U.S. firms and enterprises in Eastern Europe. In this respect, Poland and Hungary offer unique opportunities.

Chairman GIBBONS. Mr. Gallo, Mr. Milosh, we thank you for your testimony and for coming to assist us today on this question. As you might have gathered from the last series of questions, we are not always, the administration and the Congress, of one mind on these subject matters.

I don't think there is any question that we are moving in the right direction on Poland. I won't quibble with anybody about whether we should have done it sooner or later, but we are finally moving in the right direction.

On Hungary, though, I wonder whether a simple continuation of the status quo is going to make that much difference. We have been doing all these things for Hungary anyway on a year-to-year basis, and now the administration says it would just as soon continue that process.

Do you think we have really changed the situation as far as Hungary is concerned?

Mr. MILOSH. Well, as a policy matter, let me say this, that the association has not looked at the question of extending most-favored-nation-treatment beyond the 1-year waivers. We have taken the position on the Soviet Union, and that is that we favor codifying the implementation policies because that is a very complex question that goes beyond emigration of one group.

It may apply to republics and nationalities so I think it is a more serious question when you deal with the Soviet Union. But I think Mr. Gallo would confirm that from a business standpoint, yes, for planning purposes and stability, a 1-year waiver is really not adequate for business.

Chairman GIBBONS. So a 1-year waiver as far as Hungary is concerned is really not improving the situation any?

Mr. GALLO. No, it would not.

Chairman GIBBONS. Mr. Frenzel, would you like to inquire?

Mr. FRENZEL. I thank the witnesses for their testimony.

I would like to ask Mr. Gallo if he would restate for me his statement about textiles. Did you mean that we were going to have to include textiles in GSP for the future?

Mr. GALLO. My answer to that, sir, is this—per se, under GSP as the legislation presently states, perhaps not, but however, and this is my own personal viewpoint. It is my feeling that if we are going to extend any hand of help to any of these countries in Eastern Europe to move towards more a democratic scheme of doing things, whatever you call democracies in their own language, then we must, I think, look at the problem as it exists and not how we think it exists.

Take the case for Poland in question. They are sitting with a \$39 billion debt. My knowledge of the Polish people, from a business viewpoint is that they want to pay that debt back, but I think we should look at it as Americans as to what does that debt represent. That debt represents money that is locked from the international community.

It is locked. It cannot move. It must be paid back. Poland, if we are sincere, rather than consider this to be a trade matter, I think should be encompassed as trying to help a friendly nation out of its problems much as we did after World War II in helping even our

enemies out of their problems, and that is allow them to pay their debt.

To pay your debt you must have income. It is as simple as that. If you are not allowing them to get importer or export income, you are not allowing them anything except giving them lip service. Poland has a \$300 million export business, of which \$65 million represents textiles, the total textile classification.

Practically speaking, though, textiles per se is a sensitive area. It is my feeling as to what is \$65 million sensitive to in this country? I don't think much. Vis-a-vis when you are talking about the sensitivity of textile imports from the rest of the world, particularly the Far East, where I am doing a decent amount of business also, there I could understand and appreciate the sensitivity of textile import.

But if the administration in its feeling really believes what they say, then I think the open hand of help in order to create a political climate that will induce these countries to go forward to achieve the political aspirations that they want, then you will get back what we gave because it has been my own personal feeling that in a capitalistic society, and I say that word with complete admiration, once you allow that, the forces of a democratic reform are not far behind.

Capitalism by its own nature creates personal initiative, and personal initiative is something that requires a democratic form of doing things. I hope that answers your question.

Mr. FRENZEL. Thank you very much. I appreciate the answer.

Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. Yes, sir. That was a very fine answer, very practical, very fine answer.

Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman. I appreciated your testimony as well, gentlemen, and I am glad you are here. I think this is an important hearing. Certainly there have been very great advances in both Hungary and Poland toward economic and political freedom in recent years, and I think the trend is moving rapidly in that direction.

I have a long-standing interest in rights of workers, and in that specific area I must say I am impressed with the progress that has been made also. I may have missed it, and if so, I am sorry, but did you take a position on the length of time which we ought to extend MFN for Hungary, for example, 3 years, 5 years, 1 year?

Mr. MILOSH. Again, from a business standpoint, the longer the term, the better, the more stability one would achieve, and engender interest in doing business in any country, so that we would favor, if a waiver is granted, to make it as long as possible for business purposes. That is for Hungary we are talking about.

Mr. PEASE. What about Poland?

Mr. MILOSH. Poland already has it.

Mr. PEASE. Okay. I would like to express a concern I have to you and see how you would react to it. I am looking at what happened in China just recently, and it occurs to me that democracies and totalitarianism are not compatible bed partners. You can have one or the other, but you can't have both.

If you have democracies, sooner or later the voters are going to repudiate their totalitarian leaders. I think essentially Deng Xiaop-

ing and the leaders of China saw that, and they saw their control threatened, and they stepped in and cut democracy off at the knees. And certainly the election that occurred in Poland recently indicates that if given their choice, the people will totally repudiate their Communist rulers.

They did that. I think, from my experience in both countries, in both Poland and in Hungary, if there are democratic institutions which give the people the choice, they will elect representatives who will probably want to pull those countries out of the Warsaw Pact, and I have a little difficulty seeing how the Soviet Union can tolerate that.

The Soviet Union will have some trouble, I think, with true democracies, I think it was in 1956 the Hungarian leaders' intention to pull Hungary out of the Warsaw Pact that really triggered the crack down at that time. So I guess I worry that if democratic development occurs, first the Communist Party in each country will lose power and then the truly elected people will start pulling those countries out of the Warsaw Pact and the economic arrangements with the Soviet Union.

I am wondering whether the Soviet Union can tolerate that. All of which says to me the possibility of a severe reversal is always present, and I am a little concerned about the statutory 5-year extension of MFN for Hungary, for example, because of that factor.

We could wind up 2 years from now or 3 years from now with a total reversal in Hungary. I can understand why from a commercial point of view a longer period is desirable, but from a political point of view I am not quite so sure. Could you comment on that, please?

Mr. MILOSH. I would be more than happy to. In the first place, even if MFN were granted over a period of time, if the administration sees fit to withdraw it, there are methods to that kind of a move, and that has already occurred in Poland at one point when there was martial law declared, so there is a procedure for withdrawal, I would say, that should adequately take care of that situation.

Second, I would say that wherever there is an electoral process that is underway, it will lessen the chance of the kind of upheaval you are talking about because there is an institution that is built in of both the population as well as business represented in the annals of government to prevent a return to totalitarianism. So I think that is what sets Poland and Hungary aside from any other country. Yes, Communist one-party systems do not die easily, and therefore it is going to take time. And it will be an evolutionary process in a sense, but wherever we see democracies flourishing, it is to our benefit to support that kind of an action.

Mr. PEASE. Let me mention one other concern regarding Poland. I understand the administration would like to remove Poland from the list of countries that are ineligible for GSP. That would not automatically extend GSP to Poland, but it would make it possible for the President to do so if he chose. When I think of GSP, I think of developing countries around the world struggling with their economies and GSP has a way of assisting those countries to industrialize and expand their GNP.

Somehow to me Poland doesn't quite fit in that category. It has had an industrial base for a substantial length of time, and I don't know off hand what its per capita GNP is, but it is certainly not as low as Bangladesh or some other countries like that. Do you think it would be appropriate for the President to consider extending duty-free access to the U.S. market for Polish goods?

Mr. MILOSH. Yes, we do. That is the position of the Association. Again, it is because of recent developments in Poland, keeping in mind the GSP Program is to promote exports, and if we can assist Poland in this measure and to develop market access, one of the fundamental principles of extending GSP treatment is to countries that do extend market access, and we are of the opinion that small and medium-sized companies can make a difference in Poland.

Mr. PEASE. Okay. Thank you very much. Thank you, Mr. Chairman.

Chairman GIBBONS. Any other questions?

Thank you very much, gentlemen, for good testimony. This concludes the hearing on the U.S. trade relations with Poland and Hungary.

Markup of the bills that we considered today will begin at 11:30 a.m. on Wednesday, June 14 in this room. The record will remain open until the close of business Friday, June 16. I thank the witnesses for appearing. I have a specific written question for the State Department, particularly for their lawyers.

[Whereupon, at 3 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

COORDINATING COMMITTEE
OF
HUNGARIAN ORGANIZATIONS IN NORTH AMERICA

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STATEMENT

OF

THE COORDINATING COMMITTEE OF HUNGARIAN ORGANIZATIONS IN NORTH AMERICA
CONCERNING H.R. 2550

To provide for certain forms of assistance to Poland and Hungary
to encourage the process of democratic reforms in those countries

Submitted to

The Committee on Ways and Means of the U.S. House of Representatives

by

Istvan B. Gereben

Executive Secretary

June 15, 1989

Hungary in the past decade, especially in the last year, made certain remarkable steps to improve its image as a country more tolerant of dissent, ready to consider hitherto unthinkable options to avoid economic disaster and bankruptcy. Hungarian officials in Washington, aided by their colleagues at home, wage an extraordinary lobbying effort aimed at the reconsideration of the extension of OPIC authority to Hungary by the U.S. Congress.

We should very carefully examine existing laws, practices and intentions of the present leadership in Hungary and be sure that we have no misconceptions about them before we draw far reaching conclusions about their sincerity in doing what they say they are trying to do, before we give in to a masterfully waged public relations campaign by a desperate Hungarian government.

Revised on June 16, 1989

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It is a widely held misconception that Hungarian laws have been changed to accommodate free enterprise, private ownership and foreign investment. The facts reveal intentional and unintentional ambiguity and the introduction of misleading concepts.

Laws defining ownership, establishing the roles of state, cooperative and private property in the Hungarian economy and regulating their relationship to each other, as well the rights and responsibilities of foreign owners are confusing at best.

The Central Committee of the Hungarian Socialist Workers' Party instructed the Committee charged with the preparation of the draft for a new constitution, chaired by Kalman Kulcsar, the Minister of Justice, that Hungary must be defined in that document as a "free, democratic, socialist country". Western observers emphasize the first two words and neglect the meaning of the third.

This definition is contradictory. If the constitution dictates socialism as the mandatory form of the economy, society cannot be free or democratic. Socialism, according to Webster's dictionary is "any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods".

To affirm that the Hungarian leadership interprets the meaning of the word socialist along these lines, Mr. Tamas Beck, the Hungarian Minister of Trade, when asked in an interview, given during his recent visit to the Federal Republic of Germany, whether the Hungarian market should be left to the free play of forces, said: "The market would continue to be controlled by the state..." In the interview published in Sueddeutsche Zeitung (27 April, 1989; p.13), Mr. Beck further stated that he rejects any doubts about the need for central control of enterprises working under conditions of competition. He said that this is "indispensable". The Minister also refused to accept the idea that any form of control affects foreign investors' interest and confidence: "The Hungarian competitive market cannot be determined by free competition. The existing organizational system of enterprises, which will presumably continue to exist, and the necessarily substantial weight of the socialist state prevent the emergence of free competition. The influence that the regulatory system has on the market also prevents free competition." (The English translation of the full interview was published in FBIS-EEU-89-084; 3 May, 1989)

Mr. Beck also gave an interview after his return from West-Germany to FIGYELO, a Hungarian Weekly, published in its February 16, 1989 issue. He recited a long list of questions asked him by German businessmen. We will quote the most interesting of these questions: "Who has the legal authority to sell the state owned enterprises? What will be the relationship between the foreign owner of

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an enterprise and the Enterprise Council? What will be the relationship between the foreign owner of a factory and the mass organizations active in that factory: the Party, the Communist Youth Organization, the Unions? Will the new owner be free to establish wage, personnel, travel, representation, car use policies? What limitations will be placed on export and import transactions of foreign owned enterprises? Will ownership extend to the land on which the fully owned enterprise is located, will the foreign owner be free to sell his property to another foreigner?"

The Minister admitted that he could not answer these questions with a clear conscience. He further stated: "The biggest problem without any doubt is the ambiguity of definition of ownership. The Hungarian practice cannot be acceptably explained to an intelligent man."

This situation exists after the enactment of two laws: "Act VI. of 1988 on Economic Associations" and "Act XXIV. of 1988 on Foreign Investment in Hungary". Both laws came into force on or before January 1, 1989.

The confusion in concept, laws, and practices of ownerships is clear. If we consider the relevant - ambiguous and contradictory - statements of other Hungarian officials (General Secretary of the HSWP Grosz, Minister of State Pozsgay, General Secretary of the Hungarian Chamber of Commerce Lorincze) the confusion becomes crystal clear.

The latest report on the performance of the economy in Hungary indicates that in the first quarter of 1989 the GNP was 2% below the same period of last year. The deficit in balance of payments in the first quarter of this year exceeded the amount forecasted for the whole year of 1989. The poor performance is attributed to inept fiscal policies.

Hungarian entrepreneurs expressed their lack of confidence in the regime's economic policies at the early March, 1989 meeting of the National Association of Entrepreneurs. At this meeting it has been revealed that private ownership lost its appeal last year in Hungary. In 1986 and 1987, 60.000 full time workers were employed by privately owned enterprises. In 1988 this number fell to 40.000. Similar decrease was observed in the number of part time employees. The new tax law - discriminating against private entrepreneurs - and loss of confidence in the leadership's ability to save the economy are some of the reasons given for the retreat of private investors from participation in the Hungarian economy. A further sign of deteriorating conditions is the unwillingness of entrepreneurs to reinvest their profit in their business. Instead, this profit is spent frivolously on foreign travel and unneeded luxury items. All these happen at a time when the Hungarian leadership pays lip service to the "vital" role of private enterprise in the revitalization of the economy.

Hungarians do not place trust in the promises of their leaders. They are convinced that in saving the Hungarian economy nothing short of a thorough unraveling of centralized economic control will work. "Restructuring" of the system failed. The lack of confidence in the leadership's ability to remedy the

problems of the economy is further evidenced by the rush on savings by ordinary citizens who convert their withdrawn Forints into hard currency. As of last week the black-market exchange rate between the Forint and the Dollar exceeded the official rate by almost 100% (110 Forints to 1 Dollar).

According to Jacques Rupnik: "Hungary has been practicing perestroika for some 20 years. The result so far is what might be called catastroika." (The New Republic, 22 May, 1989).

More of the same promised by those who lead the economy to this crisis will not produce the miracle needed to save Hungary from economic disaster. Hungarians know this.

Western investors also have a hint about the difference between promise and reality. Since 1972 - when Hungary opened its economy to foreign investment and joint ventures - a total of \$280 million were invested in Hungary. This amount in comparison with the yearly foreign investment of more than \$800 million in Turkey and \$1.4 billion in Greece tells the story about the harsh economic reality in Hungary.

Hungary's total debt in January 1, 1989 was \$17.445 billion. The 1989 debt service cost is \$3 billion. This cost will increase to over \$4 billion in 1990. Without drastic improvements in productivity, hard currency exports and foreign investments the crisis can turn into collapse. The rapid establishment of a free market economy is the only solution to avoid disaster.

In these circumstances, extending OPIC authority to Hungary is not the right policy. Instead of providing a strong impetus for the Government in Hungary to implement the necessary laws and practices to place the economy on a free market basis, it actually slows down and even prevents this process.

OPIC extension to Hungary should be considered only after prior fulfillment of the conditions of

- a./ commitment to a constitution which guarantees the unhindered implementation of the principle of private ownership;
- b./ non-discrimination in the development of a free market economy;
- c./ enactment of comprehensive, unambiguous laws regulating foreign investment.

In no event should Hungary be made exempt of the basic OPIC requirements regarding workers' rights and the use of forced labor.

Meanwhile, the deserved help to the people of Hungary by Western democracies should take the following forms: Welcome guest-workers from Hungary; open up to any exports Hungarians are capable of selling in West Europe's competitive markets; maintain MFN status in the U.S. with yearly review; improve student exchanges; grant scholarships in technical, medical and business

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schools; establish internships at government, political, bureaucratic, social institutions to enable the participants to experience and learn the practical aspects of democracy; educate them in western business and culture.

Sending cash - untied loans or government guaranteed investments - is not the effective way to encourage the development of a free market economy in Hungary. The pressure for hard currency and the pressure of debt have been the impetus to take the road to economic reform. It would be counterproductive if the West relaxed the pressure while most of the 'reforms' remain on paper.

Once the principles of a free market are effectively implemented by institutionalizing them, then it would be worth offering the leadership relief from the economic burden resulting from many years of doctrinaire application of the failed tenets of socialism.

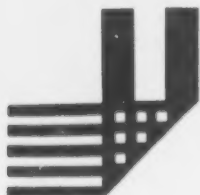
We are sure most Hungarians agree with this view.

The eagerness of American politicians and diplomats to reward the Hungarian leadership for the "progress" they achieved is natural and understandable, however it should be tempered by the lessons of history. Richard Hofstadter writes in his book titled: "The American Political Tradition":

"In France during the early days of the French Revolution Jefferson was naturally consulted by the moderate leaders of its first phase. Once he committed the indiscretion of allowing Lafayette and a few friends to meet at his home. He promptly apologized to the French Foreign Minister, Montmorin; but Montmorin, who evidently understood Jefferson well, answered that he hoped Jefferson 'would habitually assist at such conferences, being sure I would be useful in moderating the warmer spirits and promoting a wholesome and practicable reformation only.' When the King showed the first signs of a conciliatory state of mind, appearing in public with the popular cockade on his head, Jefferson concluded that the time had come for a compromise with the crown. But the draft of terms which he gave to his revolutionary friends was rejected - because it was too moderate."

This episode in United States history has a direct bearing on the present situation in Hungary. We hope that its significance will be recognized by those government officials who are responsible for the development of U.S. policies toward Hungary. H.R. 2550, as far as Hungary is concerned, is a well intended but premature effort to encourage the process of democratic reforms in Hungary.

Hungarian-U.S. Business Council



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June 9, 1989

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the U.S. membership of the Hungarian-U.S. Business Council, I would like to express the Council's great appreciation for the work you and the other members of the Trade Subcommittee have done to expand and strengthen U.S. economic and trade ties with Hungary. Specifically, I would like to congratulate you and Congressmen Frenzel and Lantos for introducing HR 1594 on Hungarian MFN.

We have come a long way since Congressman Frenzel first spoke before our Council in September 1977 in Budapest. Speaking on behalf of then Subcommittee Chairman Vanik, the Congressman urged Hungary to negotiate a trade agreement with the United States and expressed the belief that Congress would give the agreement prompt and favorable action. As you know, the following year our two governments negotiated such an agreement, including a provision for most-favored-nation (MFN) tariff treatment, and it was approved by the U.S. Congress.

In his speech before our Business Council, Congressman Frenzel went on to express his regret that U.S. trade law restricted MFN to renewable 12 month periods. He went on to say that "the one-year requirement of the Trade Act is an unreasonable restriction unsuitable to modern commerce". He also expressed his hope that a modification of the Trade Act might be possible with respect to Hungary.

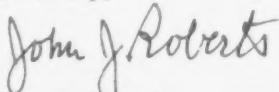
Congressman Frenzel's views are even more prophetic today than when they were expressed nearly 12 years ago. American companies are actively engaged in joint venture activities and other forms of long-term cooperation in Hungary. One of the American members of our Business Council has even received permission to establish a wholly-owned subsidiary of his company in Hungary. All such endeavors require a stable, long-term relationship, which can only be satisfied by long-term trade arrangements such as MFN.

Mr. Chairman, you and the other members of your Subcommittee who have visited Budapest during recent times understand the magnitude of the changes that are going forward in Hungary. State-owned enterprises have been offered for sale to foreign entities. The economy is undergoing a gradual transformation with a growing emphasis on privatization of state industry. Managers are being taught market economy principles in order to improve productivity and better integrate their activities into the world's market economy.

Because of this tremendous change, it is no longer possible to view Hungary as a traditional nonmarket economy country. We would urge your Subcommittee to take a closer look at this development in the hope and expectation that Congress and the Administration might judge Hungary to be market economy oriented for purposes of our trade laws. Such a determination, would allow us to treat Hungary for tariff and other purposes like we treat 99 percent of the other countries of the world. Such a decision would also send a powerful signal to all of East Europe that we are prepared to recognize economic change in this region and to deal with it constructively.

Mr. Chairman, I am sorry that on short notice we were not able to participate personally in your hearings. We do believe that your undertaking is an important one, and, therefore, we wish to ask that this letter be included in the hearing record. I would also note that I depart the week of your hearing for Budapest, where I will lead a delegation of some 60 American business representatives to the annual meeting of the Hungarian-U.S. Business Council. There ~~will~~ undoubtedly be discussion of and strong support for your legislation at that meeting.

Sincerely,



John J. Roberts
Chairman
Hungarian-U.S. Business Council

Chairman
American International Underwriters

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